

**Congress of the United States**  
**Washington, DC 20515**

July 24, 2006

The Honorable J. Dennis Hastert  
Speaker of the House of Representatives  
Washington, DC 20515

Dear Speaker Hastert,

We write asking you to delay House consideration of HR 1956, the Business Activity Tax Simplification Act, until it can be improved.

As you know this legislation would profoundly impact states' ability to legally collect corporate taxes.

The intent of this legislation, which is to simplify state business taxes to better facilitate interstate commerce, is laudable. We recognize that certain state tax laws may discourage business activity, but moving forward with federal legislation to address this issue without achieving any consensus among state governments and Members of Congress is short-sighted. Furthermore, while we are concerned that the process by which HR 1956 has been crafted and considered by the House Committee on the Judiciary is flawed, we are also convinced that HR 1956 may not achieve the objectives its proponents seek. The result of implementation of HR 1956 may be disastrous, as it could reduce state tax revenues and distort interstate commerce.

As you know, the National Governors Association is vigorously opposed to HR 1956 for a number of valid reasons. First, states are concerned about Congress trampling on their sovereign authority to govern over commerce within their boundaries. Second, businesses with activity in multiple states are likely to restructure for the sole purpose of avoiding state taxes. In fact, the CBO cost estimate of this legislation supports this assertion. Third, states expect this legislation to hurt the competitiveness of small businesses because large, multi-state businesses will employ new tax schemes to lower their tax liability to create an artificial advantage. Fourth, the court has provided clear guidance to states and businesses about state jurisdiction over corporate taxation; re-writing federal law in this area would lead to confusion and litigation.

Mr. Speaker, this legislation imposes an unfunded mandate and will deliver budget shortfalls to state and local governments. The CBO estimates that these governments will likely experience total revenue reductions \$3 billion annually by 2011. Some states would be particularly hard-hit, especially Washington, Michigan, Maryland, and Texas.

Delaying House consideration of HR 1956 will afford federal and state lawmakers the needed opportunity to work through the complicated issues that this legislation raises, while also demonstrating Congress's intent to move forward. We feel strongly that this important initiative must only proceed once an adequate consensus has been achieved by state and local governments and businesses, large and small. We thank you for your consideration and look forward to working together on this and other issues.

Sincerely,

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